ISSUES AND UPDATES

PERSONAL SERVICE COSTS

PAY PLAN

The FY 2003 budget includes a market adjustment of 5% to the City's pay plan for classified employees. The salary cost of the market adjustment is \$1,227,194. This adjustment is based on a market analysis, which included the same markets as identified in previous surveys. The market data includes local and private sector, as well as public sector information.

The pay plan for Administrative/Technical Professional (ATP) employees has not changed; it is still open range. ATP employees do not receive an automatic market adjustment; any pay increase received is based on performance. ATP employees in ranges 7 through 16 will be eligible to received on average a 8.2% merit increase and ATP employees in ranges 17 and above a 7.2% merit increase.

In addition, the average merit increase that classified employees are eligible for is 3.2%. The total salary cost for merit increases for both classified and ATP employees are estimated to be \$1,039,423.

Changes have also been made to employees in clerical/administrative support positions. These positions have been consolidated in a "Broad Band Classification" system. Broad banding may be done when many jobs perform the same type of work but under different titles and in different departments. This process allows similar jobs to be combined into one larger classification, which contributes to more flexibility and efficiency in how these employees are worked and paid. It also decreases the number of classifications and job descriptions required. In this case six classifications were decreased to two. This also allows employees to move from one range to another once they meet the qualifications and performance requirements. Employees are compensated and moved through the pay system based on zones rather than steps through reclassification.

Skill based pay will be implemented in the Utilities Department on July 1, 2002 as a pilot program at the Wildcat and Rio Plants. Employees participating in the pilot program will initially be eligible for a maximum \$1,000 incentive pay based on realistic and attainable

performance metrics. During the pilot program compensation, training, and skill blocks will be fully developed for implementation.

Skill based pay is a means to increase productivity and efficiency through use of technology and a multiple-skilled workforce and to compensate employees for the increased value they bring to the job due to their knowledge and skills that are currently out side their specialty. Under this program compensation is tied to the technical level which has been associated with skill blocks. This system supports the development, sustainment and compensation of a flexible workforce.

HEALTH INSURANCE

Fiscal year 2003 begins the tenth year the City has participated in the joint purchasing of health insurance through Northern Arizona Public Employees Benefit Trust (NAPEBT). NAPEBT members are Coconino County, Flagstaff Unified School District and Coconino Community College, and the City of Flagstaff.

Due to a 22% increase in premiums this year, the NAPEBT Board decided to go out for proposals. Through this process three proposals were received and after extensive interviews, the NAPEBT Board decided to change providers. The new provider for health insurance will be Blue Cross Blue Shield of Arizona beginning July 1, 2002. Human Resources had open enrollment meetings with employees between May 20, 2002 to June 6, 2002, to make the transition to the new carrier. The increase in premiums resulted in a 14% increase while maintaining the current coverage and enhancing the plan with the following changes:

- 1. Prescription Card
- 2. Lab expenses covered at a higher rate
- 3. Eye Exams once a year vs. every other year.
- 4. Biodyne mental health services
- 5. On-Line Services, for both employer and employees
- 6. Enhanced Communication/ Educational Programs
- 7. Local Representatives
- 8. Enhanced Urgent Care Coverage

FY 2003's budget reflects the continuation of the City of Flagstaff paying the full premium for the employee and keeping the subsidy for dependent health insurance at its current rate of \$244.00 per month. For FY 2003 the total budget for employee only heath insurance is \$2.6 million,

which is an approximate increase of 25% for all funds. The total cost of the dependent subsidy to the City is \$1.1 million, which is an cost to all funds of 9%. The increased cost to employees for dependent health insurance will be \$50.58 per month.

Dental insurance premiums, both employee only and dependent, resulted in a rate decrease of 4.3%. The City pays 100% of employee coverage and employees pay 100% for dependent coverage.

RECLASSES, RERANGES, RETITLES

Maintenance of the job classification system is an ongoing process to ensure that job classifications accurately reflect the responsibilities and tasks being performed by City employees. If a department head believes that an employee(s) is functioning out of class on a regular basis or that job responsibilities have changed sufficiently, a request may be made for the Human Resources Division to conduct a review. The Human Resources Division then conducts an audit and evaluates the request utilizing Decision Band Method (DBM) methodology.

If the audit and analysis indicates that an adjustment needs to be made to a position classification, Human Resources procedures allow for three types of changes.

- 1. RECLASS An individual(s) within a classification is evaluated in regard to moving that person(s) from others in the same classification to a higher (or lower) classification. Some instances may include a title change.
- 2. RERANGE A classification in a given pay range is evaluated in regard to moving that position classification to a higher (or lower) pay range. This effects all employees in the classification, including single incumbent classifications. Some instances may include a title change.
- 3. RETITLE A job title is evaluated in regard to changing the job title only. This does not effect pay.

The audit can also show that the position is properly classified and/or titled and that no changes are needed.

All requests from departments were submitted to Human Resources for review, and only those recommended for approval were forwarded to the Budget Review Committee for inclusion in the FY 02-03 budget. Human Resources have notified all department heads of the status of their requests, whether approved or disapproved. All approved changes will be effective as of July 1, 2002.

Human Resources received a total of 16 requests and the following shows those positions that were approved:

RERANGES								
Old Position Classification	Old Range	New Title	New Range	No. of Employees Effected				
Deputy Court Administrator	10	No Change	12	2				
Court Administrator	14	No Change	17	1				
Equipment Operator II	6	Equip. Optr. III – Commcerial	7	8				
Building Supervisor	11	Building & Safety Manager	12	1				
Account Clerk III	7	No Change	8	1				
Conservation Coordinator	9	No Change	10	1				

RECLASSES								
Old Position Classification	Old Range	New Title	New Range	No. of Employees Effected				
Sr. Equipment Parts Specialist	6	Buyer	8	1				
Evidence Clerk	4	Evidence Technician	7	1				
Engineering Tech II	6	Engineering Tech III	7	1				
Building Clerk	4	Administrative Support Tech	6	1				
Landfill Attendant	3	Administrative Support Assist	4	2				
Landfill Clerk	4	Administrative Support Tech	4	1				

REORGANIZATIONS

In an effort to streamline services and create better customer services the Community Development Department reorganized the front counter customer services area and the switchboard area so that these two areas were consolidated and a Development Services Supervisor position was created to provide direction to both areas. This change took place mid-year (FY01-02) and was part of the City's Organizational Development Program.

The Environmental Division also reorganized midyear due to the Public Works Engineer position becoming vacation. The Public Works Engineer position was reclassified to a Environmental Program Manager. The current Environmental Technician was changed to full-time and the Environmental Technician was reclassified to Environmental Supervisor.

In an effort to improve efficiency and communications the Police Department created two Deputy Police Chief positions. One is in charge of operations and the other is in charge of support services and the day-to-day operations of the department. By creating an additional Deputy Chief Police position and splitting the responsibilities it enhances accountability and communication for each section. Communications and records were also separated due to the increase in workload that occurred with the consolidation with the county.

Facilities Maintenance also reorganized by reclassifying a Maintenance worker III position that specialized in carpentry (building desks and tables) to a Maintenance Worker II. It was determined that it was cost effective to purchase desks and tables rather than have them built in house, especially when buying in volume. Changing the job to a lower level still allows for light carpentry projects and also provides more general maintenance work, which is needed. Through salary savings from the Maintenance Worker II and temporary wages another Maintenance Worker II was created building capacity to do more maintenance work.

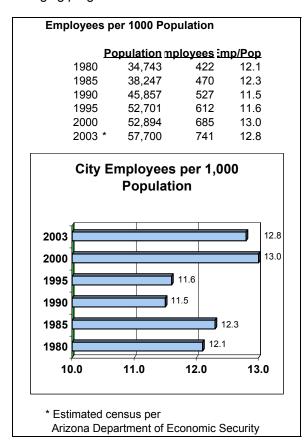
NEW POSITIONS

In preparing budget requests for FY 2003, departments were informed that new position requests would not be considered except for:

1999 2000 2001 2002 2003								
Public Safety 216.75 222.75 232.00 245.50 245.00								
Public Works 169.00 182.50 184.50 194.75 191.25								
Mgmnt Services	83.25	87.75	91.00	93.50	85.25			
Community Dev	73.00	75.50	75.00	66.25	67.25			
Utilities	72.00	72.00	71.75	74.75	74.50			
General Admin 43.75 44.75 45.75 71.50 78.00								
657.75 685.25 700.00 746.25 741.25								
250.00 200.00 Mgmnt Services 150.00 Community Dev Utilities General Admin								

- 1) those that could identify a funding source;
- 2) those which are an inappropriate use of temporary positions.

A review of the Personnel Table of Organization (see Appendix Section), provides complete detail, including staffing request changes that are reclassification requests and transfers of personnel between divisions to accommodate changing program needs.



Increased Service Levels:

Court (1.0): The Flagstaff Municipal Court currently depends on information systems (IS) support from the Supreme Court administrative offices located in Phoenix. The addition of one FTE locally will greatly enhance the response time to local needs. The position will serve regional needs and is funded through JCEF. As the dependence on IS systems has greatly increased, a local staff person is needed to keep the systems operational in a timely manner.

Library (0.5): When the City opens the new East Flagstaff Branch, Library hours will be increasing and the addition of a half time clerk is necessary.

Streets (1.0): Traffic Signal Technician: The City currently supplies maintenance on an as needed basis to the 25 City owned traffic signal controlled intersections. This position will enhance service by addressing signal needs on a more proactive basis.

Maintaining Service Levels

Risk Management (0.5): The City is expanding its responsibility for claims management internally. The position cost is offset through savings in professional fees.

Purchasing (0.125): The Purchasing Department has experienced an expanded need in working with vendors, bids, and quotations. This position will also assist in covering the front desk as needed.

Budget reductions:

As part of the budget reductions efforts, divisions were asked to evaluate any position not currently filled to see if there ware ways to reorganize the department which would result in a reduced staffing. As a result of those efforts, the following positions have been removed.

City Manager (0.625): The City Manager will not fill a 0.5 Intern position and a 0.125 Replacement position for the Executive Admin Support Coordinator. These reductions will not affect service as provided to our citizens.

Management Services (1.0): A Grants Assistant position has been eliminated from the City plan. A reorganization of duties involving both the Management Services division and the Finance division will accommodate the City's needs to appropriately pursue grant opportunities.

Library (0.45): When the East Flagstaff branch is open, the City will decrease the hours at the Downtown branch by closing the facility on Sundays.

Building Inspection (1.0): A cooperative effort between the Community Development Administrative team and the Building Inspection team has resulted in the ability that allows staff to revise their duties and eliminate a position.

Parks & Recreation (3.4): The Parks and Recreation department evaluated all programs and made reductions in many of them. The reduction is in temporary hours.

COST ALLOCATION

The cost allocation plan has been developed utilizing a methodology that is in accordance with generally accepted accounting principles (GAAP). Incorporated within GAAP are three basic principles related to the allocation of central service support costs to operating departments which have been adhered to in the preparation of the cost allocation plan. First, costs should be necessary and reasonable for proper performance of a program. Second, costs should be charged or allocated to programs in accordance with relative benefits received. A program should only be charged for services it utilizes or benefits from, and should only be charged in relation to benefits derived from the service. Third, costs should be accorded consistent treatment as either direct or indirect. A cost should not be charged to a program as a direct cost if any other cost incurred for the same purpose in like circumstances have been allocated to the program as indirect costs. methodology accommodates detailed analysis of all service areas through the provisions of a structure that identifies total costs (both direct and indirect) by activity and allocates/assigns costs to benefiting services utilizing a base that appropriately represents the level of benefit

provided or derived from each activity by each service. The cost allocation is based on budgeted expenditures for the fiscal year ending June 30, 2002. The City utilized the services of a consultant to prepare this year's plan. The cost allocation plan will also provide information for user fees and the ability to charge indirect cost to grants.

METHODOLOGY

A multiple allocation base methodology has been utilized to prepare the Plan. This methodology acknowledges that the utilization of central administration and support (indirect) services by users varies by type of service. The cost of each indirect service or activity of a service is allocated to users based on an appropriate allocation base related to the service performed. For example, general accounting has been allocated to users based on total budgeted expenditures; accounts payable activities have been allocated on the number of accounts payable transactions processed during FY 2001; and human resources activities have been allocated on the number of budgeted full-time equivalent positions served. In selecting an allocation base to be used, the objective has been to utilize a base for each service that is available and reasonably results in the allocation of a service to users based on the relative benefit they receive or derive. A list of the allocation basis is provided in the Appendix.

City of Flagstaff Cost Allocation For Fiscal Year 2003

CENTRAL SERVICE	GENERAL AND OTHERS 001	LIBRARY 030	HURF 040-044	UTILITIES 201	AIRPORT 270	ENVIRON. SERVICES 280	TOTAL	TOTAL CHARGED OUT - GF
General Fund Services								
Non-Departmental	\$ 2,208,436	32,139	79,448	135,604	35,554	70,902	2,562,083	353,647
Council & Commissions	103,408	7,139	27,990	39,920	8,172	17,993	204,622	101,214
City Manager	359,396	32,567	78,737	116,731	21,365	63,214	672,010	312,614
City Clerk	77,674	5,642	20,683	31,233	5,714	14,227	155,173	77,499
Law	313,997	16,403	60,127	86,394	16,610	41,360	534,891	220,894
Human Resources	295,510	25,642	27,261	966'09	7,949	33,463	440,821	145,311
Management Services	463,901	47,921	97,356	145,608	299'06	36,703	882,156	418,255
Information Systems	357,168	16,172	43,510	120,735	14,384	74,798	626,767	269,599
Finance and Budget	282,931	33,021	55,886	108,995	26,336	42,340	549,509	266,578
Sales Tax & Licensing	489,657	21,477	ı	20,845	17,685	32,846	582,510	92,853
Public Works Admin.	43,764	1	41,516	1	45,183	44,086	174,549	130,785
Public Facilities Maintenance	440,380	57,842	36,900	23,832	11,255	42,276	612,485	172,105
Soils Remediation	54,390	282	55,145	19,398	3,831	68,123	201,169	146,779
Mechanical Shop	58,391	303	59,201	20,828	4,113	73,131	215,967	157,576
Community Devel. Admin.	152,975	1	ı	1	1	ı	152,975	1
Engineering	1,340,628	1	607,425	381,285	•	3,475	2,332,813	992,185
Planning	732,970	37,982	205,669	284,511	72,839	95,547	1,429,518	696,548
Contributions	203,858	10,430	24,009	53,804	4,978	26,135	323,214	119,356
Total General Fund	\$ 7,979,434	344,962	1,520,863	1,640,719	386,635	780,619	12,653,232	4,673,798
General Administration	\$ 1,046,577	80,254	186,808	285,354	51,638	152,264	1,802,895	756,318
Community Development	2,226,573	37,982	813,094	665,796	72,839	99,022	3,915,306	1,688,733
Management Services	1,593,657	118,591	196,752	396,183	149,072	186,687	2,640,942	1,047,285
Public Works	596,925	58,427	192,762	64,058	64,382	227,616	1,204,170	607,245
Non-Departmental	2,515,702	49,708	131,447	229,328	48,704	115,030	3,089,919	574,217
	\$ 7,979,434	344,962	1,520,863	1,640,719	386,635	780,619	12,653,232	4,673,798
Utility Fund Services		4	6	(699,00)	7	000		
	000,00	1,023	3,749	(69,69)	1,037	007'00	1	

FIVE-YEAR FLEET MANAGEMENT

The ultimate goal of Fleet Management is to maximize vehicle and equipment usage, retain units as long as possible, and replace units that are predicted to experience high cost expenditures in the near future.

The City currently has over 532 pieces of equipment. The Fleet Manager uses numerous criteria in analyzing the fleet replacement needs. Initially, the age and utilization of all equipment is reviewed to determine candidates for replacement. In addition, users are asked to submit equipment for evaluation by the Fleet Manager. The City has been using fleet management software for the past five years. This allows more accurate tracking of vehicle cost and utilization history.

The Fleet Manager along with his staff evaluates each piece of equipment submitted. The Fleet Manager evaluates fiscal year-to-date as well as life-to-date costs to determine if the vehicle or equipment has had recent major component overhaul or replacement. If engines or transmissions have been replaced or overhauled recently, retention is a strong consideration in the overall evaluation. If the units are mechanically sound and the body is in fairly good condition, the unit is usually recommended for retention another year.

If a unit has incurred a significant number of expenditures and is likely to experience major component failures, this unit will be recommended for replacement by the Fleet Manager and forwarded to the City Fleet Management Committee for their consideration.

The replacement of all equipment is evaluated by the City Fleet Management Committee, which is comprised of line workers throughout the City. Within strict budget constraints, the committee must make difficult decisions as to allocation of assets due to the thorough review by the Fleet Manager. The number of vehicle and equipment evaluations submitted to Fleet Management for FY 2003 was 31 with 15 being forwarded to the Fleet Management Committee for review.

During FY 2002, the Fleet Committee reviewed and revised replacement criteria policy. In most cases extending age/hour/mileage to encompass all equipment.

Other strategies used by Fleet and the Fleet Management Committee to use available resource more effectively include:

- Provide training to fleet committee on accessing the fleet computer system.
- Purchase of used equipment when applicable.
- Exchange of low mileage or underutilized equipment to more appropriate applications, e.g. trucks with heavy body damage traded from high profile inspector application to use by temporary part workers.
- Request user departments to submit written justification for units identified as underutilized.

The following is a list of vehicles in the budget:

DIVISION		AMOUNT	
16 ENGINEERING			
FLEET-4X4 EXT CAB PICK UP		22,725	а
17 BUILDING INSPECTION			
FLEET-4X4 EXT CAB PICK UP		18,165	а
21 FIRE			
FLEET-HAZARDOUS MATERIALS TRUCK		250,000	
FLEET-TYPE 1 ENGINE (2)		666.220	а
22 POLICE		,	
FLEET-REPLACEMENT PATROL SEDANS		114,050	
FLEET-4X4 PATROL VEHICLE		28,300	
FLEET-4X4 ANIMAL CONTROL VEHICLE		18,165	
26 PARKS		10,103	
FLEET-4X4 3/4 TON TRUCK		30,960	
28 CEMETERY		30,900	
		04 505	
FLEET-4X4 1-TON DUMPTRUCK		31,525	
TOTAL GENERAL FUND FLEET	\$	1,180,110	
32 STREETS			
FLEET-STREET SWEEPER	\$	148,000	
FLEET-12YD DUMP TRUCK		130,000	
FLEET-12YD DUMP TRUCK		130,000	
FLEET-1 TON FLAT BED		25,650	
FLEET-1 TON SERVICE TRUCK		30,025	
FLEET-PATCH TRUCK		91,125	а
TOTAL HURF FLEET	\$	554,800	•
			:
48 CUSTOMER SERVICE			
FLEET-4X4 PICK UP	\$	18,165	
FLEET-4X4 PICK UP	Ψ	18,165	
54 WASTEWATER COLLECTION		10,103	
FLEET-TV VAN		100 000	_
TOTAL UTILITIES FLEET	_	160,000	.а
IOTAL UTILITIES PLEET	\$	196,330	:
38 AIRPORT			
FLEET-HIGH SPEED SNOW PLOW	\$	198,177	
TOTAL AIRPORT FLEET	\$	198,177	
41 ENVIRONMENTAL SVC			
FLEET-COMMERICAL TOP LOADER(2)	\$	340,000	
FLEET-4X4 PICK UP		19,300	
FLEET-TRASH TRUCK REAR LOADER		162,728	а
FLEET-ROLL OFF TRUCK		150,000	
TOTAL ENVIRONMENTAL SERVICES FLEET	\$	672,028	•
TOTAL FLEET	\$	2,801,445	•
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FIVE-YEAR INFORMATION SYSTEMS

The Information Systems division provides hardware and software resources to assist staff in analyzing data, providing alternatives and recommendations for Council policy decisions, and meeting reporting requirements. Division staff members provide additional services including evaluation of hardware, software, inhouse systems analysis, software development, and software / hardware testing. The five-year plan is needed to properly allocate financial resources for maintenance, replacement, system upgrades, and system development.

The current five-year plan is divided into six classifications:

- Leases: computer related major leases or purchases - personal computers, AS400, servers, network related hardware
- 2. Replacement programs: purchase of laser printers, miscellaneous computer purchase (PC's), monitors
- Local and Wide Area Network: software, hardware, LAN/WAN cabling, and Internet access
- 4. GIS: hardware and software related to the City's Geographic Information Systems (GIS)
- 5. Software upgrades: purchase or upgrades of enterprise applications
- 6. New Hardware and Software Purchases: purchase request of miscellaneous hardware and software applications

Software Purchases

Allocation of \$30,000 during FY 2003 will allow for the acquisition and implementation of Code Enforcement and Infrastructure Inventory Control. This project is tentatively scheduled to begin during the fourth quarter of FY 2003. Project will require additional funding during FY2004.

Code Enforcement

- Automates the process of receiving a request for service, investigating the request, and creation of work orders to service the request
- Recording and tracking request

- Requestor information name and address, confidentiality, requirements
- Location of problem
- Actions to be taken
- Response prioritization and priority assignment
- · Preparation of memos or documents
- Follow-up action taken
- Ability to carry forward a complaint or code violation into the citation and notification process
- Statistical summaries by department, geographic area, etc
- Automatic mailings / notification to complainant or violator

Infrastructure Inventory Control System

- Ability to track multiple type of inventories (trees, light poles, hydrants, signs, structures, furniture, etc.)
- Maintenance tracking
- Creation of model to identify behavior of inventory items
- Ability to generate maintenance and accounting transactions against a give inventory

Local & Wide Area Network - Infrastructure

The City of Flagstaff has network infrastructure designed to deliver data at 100MPS to all nodes within the City's private fiber optic network, which provides connectivity to City Hall, Milligan House, City/County Library, City Court, and City Shop located on Mogollan Street. Future plans include the extension of the fiber network to the Bank One Building.

Currently in progress is the installation of a 40MPS private wireless wide area network. This will allow the City to replace existing T1 and most of our dial-in sites. The wireless wide area network will also allow for the creation of mobile and temporary sites.

The allocation of \$108,000 also includes funding for the creation of a cluster (redundant) server environment for the City's critical applications

Allocation for Internet access allows for Internet access with an initial bandwidth of 5MB via the City's Internet Service Provider.

MIS Five Year Projections		Budget FY2003	J	FY2004		FY2005		FY2006	J	FY2007
Leases - 3 year	\$	190,000	\$	190,000	\$	190,000	Ф		\$	290,000
Loan Payment Total - Leases - 3 year	φ	190,000	φ	190,000	φ	190,000	\$		φ	290,000
Total - Leases - 3 year		130,000		130,000		190,000				230,000
Replacement Programs										
Laser Printers - Replacement		20,000		25,000		25,000		30,000		30,000
Replacement PC's		-		-		60,000		50,000		40,000
CD CAD PC Replacements		-		60,000		-		30,000		-
Total - Replacement Programs		20,000		85,000		85,000		110,000		70,000
Local & Wide Area Network										
City Hall - LAN - Cabling & Equip		108,000		100,000		110,000		105,000		55,000
Internet Access - Direct to NAP		60,000		60,000		60,000		60,000		60,000
Total - Local & Wide Area Network		168,000		160,000		170,000		165,000		115,000
GIS										
Hardware upgrades/replacement		30.000		40.000		20,000		60,000		15,000
Software upgrades		10,000		15,000		15,000		30,000		10,000
Total GIS		40,000		55,000		35,000		90,000		25,000
10111 010		40,000		00,000		00,000		00,000		20,000
Software Upgrades										
Office 97 (Word, Excel, Access, Power Point)		_		_		23,000		100,000		_
GroupWise License		2,000		2,000		2,000		15,000		15,000
Softdesk / AutoCAD		-		-		-		35,000		35,000
KIVA Applications		30,000		10,000		-		-		-
Total Software Upgrades		32,000		12,000		25,000		150,000		50,000
New Hardware & Software Purchases										
Imaging		-		10,000		20,176		20,000		20,000
Laser Printers-Color		-		-		-		30,000		30,000
Other Hardware & Software Purchases		25,198		28,958		43,000		31,584		26,413
Total New Hardware & Software		25,198		38,958		63,176		81,584		76,413
Dublic Cafety										
Public Safety Police Upgrades		25,800		14,000		14,000		14,000		14,000
Police Degrades Police Laptops		10,000		10,000		10,000		10,000		10,000
Total Public Safety		35,800		24,000		24,000		24,000		24,000
Total Labilo Galoty		00,000		24,000		24,000		24,000		24,000
Total Expenditures	\$	510,998		564,958		592,176		620,584		650,413
• • • • • • • • • • • • • • • • • • • •	<u> </u>			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		,				,
Funding										
General Fund MIS allocation	\$	669,548		703,025		738,176		775,085		813,839
Total Funding	\$	669,548		703,025		738,176		775,085		813,839
Expenditure Summary										
Leases	\$	190,000		190,000		190,000		-		290,000
Replacement Program		20,000		85,000		85,000		110,000		70,000
Local & Wide Area Network		168,000		160,000		170,000		165,000		115,000
GIS		40,000		55,000		35,000		90,000		25,000
Software Upgrades		32,000		12,000		25,000		150,000		50,000
New Hardware & Software Purchases		25,198		38,958		63,176		81,584		76,413
Public Safety		35,800		24,000		24,000		24,000		24,000
Total Expenditures		510,998		564,958		592,176		620,584		650,413
Evene //deficit) For diagram of Francisco		450 550		400.00=		440.000		454 504		460 400
Excess/(deficit) Funding over Expenditures		158,550		138,067		146,000		154,501		163,426
Cumulative Excess/(deficit)	\$	306,215	\$	444,282	\$	590,282	\$	744,783	\$	908,209
Jamaiauve Excessitation	Ψ	500,£13	Ψ	777,202	Ψ	000,202	Ψ	1,103	Ψ	300,209

2002 Updates

Facilities/Redevelopment

The Flagstaff City Council adopted its first Redevelopment Area Designation and Redevelopment Area Plan in 1992. In August of 2001, the Council designated its second Redevelopment Area for the East Flagstaff Gateway. The City Council has set aside certain funds to promote redevelopment through property acquisition, public infrastructure, design services and marketing.

During the last budget year, the City Council identified several areas for redevelopment planning. These included the Flagstaff Mall, the Downtown Gateway West and the Southside Warehouse District. The City retained Field Paoli Architects to develop concept designs and to provide a public process for the discussion of redevelopment opportunities in these areas. Field Paoli has held four workshops for the public since November to gather input. Also, they retained several outside consultants to review the Flagstaff market and propose some preliminary financial analyses. Their final report will be used as a guide to develop specific plans with the private sector for each of these areas.

Staff has also worked with other City departments and outside consultants to develop tools that may be used for both new developments and also expansion and retention of existing businesses. This past year the Redevelopment Program retained more than 150 jobs and added 75. The 156 jobs were retained at the Nestlé Purina plant while also adding 25 jobs; 50 new jobs were at Monsoons on the Rim.

The City's Redevelopment Program has also completed a number of steps this past year that will assist in attracting tenants and developers for future projects. Among those steps are:

- Creation of a national marketing program that educates tenants and developers about Flagstaff. Ads have been placed in Expansion Management, Plants Sites and Parks, Sites, and Shopping Centers Today. More than 35 leads have been generated for potential new businesses for Flagstaff.
- Direct mail campaign to potential retail tenants for Downtown and the Mall. More

- than 200 letters sent out to potential tenants. Interest in locating to Flagstaff has been expressed by more than half a dozen tenants.
- Attendance at three national retail marketing conferences, including a marketing booth at the International Conference on Shopping Centers
- Creation of marketing and demographic information for potential tenants
- Preliminary analysis of the potential for a Conference Center and Hotel in Downtown

During the past year, Flagstaff has become known as an area willing to explore partnerships and outstanding private developments. Staff proposes to leverage its work from this past year with the marketing of actual development projects like the Mall Expansion and Downtown.

This year's Work Program will concentrate on the following areas:

East Flagstaff Gateway

- Creation of a comprehensive Redevelopment Plan
- Rezoning of the existing Mall expansion parcel
- Creation of an Auto Mall
- Request for Proposals for recreational facility and housing project
- Creation of a Development Agreement with Westcor
- Implementation of Capital Improvement Projects for infrastructure around the Mall
- Resolution of State Land Lease arrangements
- Completion of expansion of a major industrial employer

All of the above proposals will be presented to Council for approvals by the end of 2002. Staff will be working with Westcor to market the Mall expansion project to potential tenants. Also, staff will be working to complete marketing and leasing of the Auto Mall.

Downtown

The City will be utilizing the planning report prepared by Field Paoli and finalizing a schedule for issuing Requests for Proposals for the Downtown Gateway West corridor. Proposals would include housing, retail, office, and parking.

Staff will continue to work with existing Downtown tenants and property owners to maintain and improve the Downtown business environment.

Staff will be issuing a Request for Proposals for a Hotel and Conference Center facility for the Downtown. The project will likely include conference and meeting facilities, a 250-room three to four star hotel and a parking garage. The project is being considered downtown although all sites will be considered in the proposal.

Southside

As part of the Field Paoli study of the Southside Warehouse District, many issues were brought up as part of the public process that had an impact on the entire Southside neighborhood. A comprehensive redevelopment plan for the Southside will be developed that includes examining existing housing stock, links to NAU, retail and transportation corridors and the historic character of the neighborhood.

As a result of the Rio De Flag project, it is likely that the Southside will be removed from the floodplain sometime during the latter part of this decade. Once it has been removed, much of the area will be open for development. This planning process will develop guidelines to assist in creating future new development that is compatible with the overall neighborhood while allowing growth that conforms to the Regional Plan.

This effort will be dovetailed with the Housing Section's Revitalization Strategy for the Southside under H.U.D. guidelines and the Capital Division's Lone Tree Corridor Study.

Marketing

Staff began a national marketing campaign this past year that promoted Flagstaff as a business and retail destination for companies seeking a regional retail economic base and for those businesses seeking a higher quality of life for their employees. Typically, it takes two to three years to begin to influence decision-makers regarding a market's viability. This program will continue and will also include marketing our Requests for Proposals to a wider audience.

Planning

FY 2003 Special Projects and Planning Studies

For FY 2003, in addition to on-going operations, the Planning Division is geared up for a number of special projects, some of which are continuations and "next steps" of work already begun, and some of which are new starts. This list represents the significant special projects that will be undertaken by the six sections that include Redevelopment, Development Review, Urban Design, Housing, Zoning Administration and Long Range. Most of the items will be performed in-house, however those work items that are proposed to be consultant-based are noted. All work tasks will be carried out through multi-sectional team assignments in the Planning Division, and collaboration with other Divisions and Departments as necessary. These projects all evolved from the Division's Strategic Work Program 2001-2004, presented to the Council in May 2001.

Regional Plan/City/County IGA for implementation of the Regional Plan. This IGA will coordinate and set forth the applicability and process for mutual City/County review of significant proposals.

LDC Amendments. This years effort will include evaluating and altering the development standards of the Business Park (BP) zoning district, particularly at the Airpark.

Development of an Urban Open Space Proposition. Includes McMillan Mesa as a component of a multi-purpose capital initiative for voter approval.

Completion of the Development Fees Draft Ordinance. This includes a \$20,000 carryover for Tischler and Associates.

Resolution of the Walnut Canyon Monument Expansion. In conjunction with the Forest Service and State Land Department.

Census. Resolution of the 2000 Census appeal.

Southside Area Plan. Commencement of the Southside Area Plan/Phase II in conjunction with the Lone Tree Road Corridor Study and the Southside Revitalization (HUD) Plan. This

includes \$100,000 for urban design and planning consultants, includes \$30,000 saved from McMillan Mesa contract and incorporates the Stone Container site for potential TND development.

East Gateway Redevelopment Plan.
Completion of the East Gateway
Redevelopment Plan, rezoning of the Mall
expansion site, and commencement of
design/build contract for public improvements.

Downtown Conference Center. Preparation and release of the Downtown Conference Center Hotel RFP.

Rio Homes and Ponderosa Trails. Complete the sale and begin design of City parcels for development of mixed income housing and identify next sites.

Izabel Housing Sites. Commence construction of the Izabel affordable housing sites.

Community Land Trust. Explore and pursue the creation of a community land trust for production of affordable homes.

Downtown Gateway West. Issue RFP for Downtown Gateway West project timed in conjunction with Rio de Flag project.

Rio de Flag. Complete design and assure funding of Rio de Flag "betterments", including FUTS, streetscape and urban design elements in conjunction with Corps of Engineers.

Southside Warehouse District. Issue RFP for Southside Warehouse District timed in conjunction with Rio de Flag project.

State Trust Lands. Participate in the development of a state-wide initiative designed to set-aside State Trust Lands for conservation.

McMillan Mesa. Preparation of the McMillan Mesa major amendment to the new Regional Plan, with associated rezonings.

Gateway Improvements. Construction of I-40/I-17 gateway improvements.

Butler/Enterprise. Construction of the Butler/Enterprise Gateway improvements, including the AZ Trail pedestrian underpass.

East Flag Traffic Interchange. Design of the East Flag Traffic Interchange Gateway improvements.

Design Review. Integration of the new Design Review process and revised Development Review process.

Redevelopment Marketing. Marketing of East Flag Gateway, Auto Mall, Downtown East, West and Southside to potential tenants.

West Side Annexation. Coordination of the West Side Annexation, as time permits. Staff originally proposed \$75,000 for consulting assistance with this project.

Affordable Housing

Affordable Housing had a number of accomplishments this past year, including:

PLANNING AND ADMINISTRATION

- Completed 2002–2003 Annual Action Plan and received Council and HUD approval.
- Completed Sunnyside Neighborhood Revitalization Strategy and received Council and HUD approval..
- Completed CDBG Consolidated Annual Performance and Evaluation Report and received satisfactory performance evaluation from HUD.
- Completed a new Analysis to Impediments to Fair Housing and obtained HUD approval.

AFFORDABLE HOUSING DEVELOPMENT AND NEIGHBORHOOD CONSERVATION

- Demolished six dilapidated structures in Sunnyside.
- Acquired four parcels of property in Sunnyside for the construction of affordable housing.
- Completed construction of eight affordable owner-occupied homes.
- Completed development plans for thirteen affordable owner-occupied homes.
- Completed nine owner-occupied housing rehabilitation projects.
- > Assisted fifty low- and middle-income first time homebuyers.
- Received council approval of ordinances to sell Rio Homes and Ponderosa Homes for

- the development of mixed income residential housing.
- Received purchase bids and development proposals for developing Rio Homes and Ponderosa Homes with mixed income residential housing.
- Provided job training assistance to 75 women from the Sunnyside Neighborhood

In FY2003, the Housing Section will undertake the following affordable housing endeavors through public private partnerships.

- Owner Occupied Housing Rehabilitation Loan Programs
- Mortgage Down Payment and Closing Cost Loan Programs
- Construction of New Homes on Vacant and Redevelopment Properties
- Acquisition of Existing Older and Vacant Homes for Rehabilitation and Sale
- Acquisition of Property for Future Development of Affordable Housing
- Payment of Building Permit Costs for Affordable Housing Units Built per Ordinance 2001-14
- Execution of Development Agreements with Private Developers to Build Affordable Housing on City Owner Land

The sale of City owned land will result in a substantial increase in the production of the entry level affordable housing stock during this and subsequent fiscal years. In FY 2003 the City will sell two large tracts of City property to private developers, selected through a competitive process, who have the expertise to construct exceptional mixed income residential housing developments with at least 20% of the units costing \$115,000 or renting for \$650 (three bedroom). The tracts are known as Ponderosa Trails (18 acres) and Rio Homes (18 acres). The size of the parcels allows for development costs. including the cost of the affordable housing subsidy as applicable, to be absorbed by the sale proceeds of a majority of market rate units. Additionally, the mixed income development concept required as a condition of the sale effects a reduction in the value and price of the land, further contributing to the affordability. The sale proceeds will be used by the City to purchase more land for the construction of similar affordable housing through а arrangement.

E-Government

The City of Flagstaff continues to pursue egovernment strategies to support the citizenry, businesses, and other governmental entities that interact with the City.

The E-Government Team received a proposal from the State's e-government partner, IBM, to develop a long-term strategy to address these needs. This long-term plan would include a needs assessment (internal and external), total cost of hardware, software, maintenance and personnel. Part of the plan would be implementation policies, including determining whether or not to charge users for e-government services. However, due to this year's budget constraints. the e-government committee decided not to enter into a consulting agreement, estimated cost \$178,000, this year. Additional enhancements to the City's web page will be made this next fiscal year through the web page host.

For FY 2003, the E-Government Team will concentrate on awarding a contract for web page development, hosting, and maintenance services. There is money budgeted (\$30,000) to pay for these services. The City's web presence has grown and there is a need to better define how additional web services are designed, implemented and maintained. Additionally, as the City's web services grow, a web server agreement addressing expansion, security and maintenance will be addressed in the RFP. As part of a system improvement, the City changed Internet Service Providers to purchase more bandwidth (speed) due to increased volume of inbound and outbound e-mails and use of the Internet.

Utilities Department Organizational Development Program

The Utilities Department has been active in quality improvement arenas for several years and continues to strive for improvement. The Director and Assistant Director are both trained by the America Water Works Association (AWWA) as peer reviewers for the AWWA QualServe Program. They have been asked this year to assist in evaluating water and wastewater systems in Littleton, Colorado and Rapid City, South Dakota. The Department

recognizes that quality improvement is a fulltime effort in order to keep up with changing technology and the high expectations of our customers.

The Department is continuing to work with the management-consulting firm of EMA. The consulting firm has estimated there is a potential of \$1.4 million to \$1.8 million that can be saved annually by addressing the following areas:

- Total productive operations
- Program driven maintenance
- Unattended facilities
- Use of technology
- Reorganization

Skill-based pay is an enabler for total productive operations and has been set as a goal to have in place by July 2002. The pilot skill-based pay group has been selected and is anticipated to begin in July of this year. The following work has been completed during FY 2002 toward the optimization project:

- Savings opportunities have been identified
- Identified detail and level of work in Utilities divisions
- Reduced staffing level at the Lake Mary Water Treatment Plant
- Identified core, support, and convenience activities
- Identified potential new revenue sources
- Began cross training between the two wastewater treatment plants
- Identified the approach to skill-based pay
- Selected the pilot location for skill-based pay
- Went to one operator "on-call" for both wastewater treatment plants
- Went to one supervisor for both water distribution and wastewater collection
- Went to one supervisor for both wastewater treatment plants
- Began selection process for Computerized Maintenance Management System (CMMS)

Budgeted funding for FY 2003 includes the following uses:

CMMS - \$70,000 Training - \$69,100 Skill-based pay - \$81,800 SCADA - \$95,000 EMA, Inc. - \$190,000 The Department has been fortunate to have the continued support of the Water Commission and the City Council for its quality initiative programs.

Stormwater Management Utility

The City of Flagstaff initiated a Stormwater Program and Financing Action Plan in June 2000 to determine the type of stormwater program needed in Flagstaff and explore various financing options. The utility or user-fee based financing strategy was determined as the best primary funding mechanism for a more comprehensive program. In July 2001, the City adopted Ordinance 2001-18 Council establishing a stormwater utility as an enterprise-fund accounting structure. The City has since undertaken development of a detailed program and funding strategy for implementation of a stormwater user-fee.

With the assistance of the Stormwater Advisory Committee, program priorities have been identified and a comprehensive program has been developed to address these priorities and compliance with the National Pollutant Discharge Elimination System (NPDES) Phase Il stormwater water quality mandate. detailed cost of service and rate study analyses is nearing completion and a master account file is being prepared. It is anticipated that the userfee-based program will be implemented in FY 2003. The Stormwater Advisory Committee through City staff will present the Stormwater level of service plan with associated rates for Council approval in the Summer of 2002 with the first billing commencing in January 2003.

The City's NPDES permit application is due before March 10, 2003. The City then has five vears in which to fully develop and implement a stormwater quality program. Thus, the needs in Flagstaff dictate that the initial efforts focus on program development and foundational steps. Stormwater management is much more than the construction of capital projects or field operations and maintenance, although they are highly visible program components. The first five years will focus on program development, creating the building blocks that will enable Flagstaff to address critical issues in the long-These building blocks will begin with term. expanding technical capability through master planning, design and regulatory oversight, public education, construction site management,

drainage system inventory and improved maintenance capabilities. Major capital improvements will not be the focus in the short-term but remedial maintenance projects in the range of \$10,000 to \$100,000 will enhance the existing system during the period of developing master plans that will drive a long-term capital investment program.

Staff appreciates the support the Council has shown this process to date.

Parks and Recreation Bond

Voters approved the current recreation bond for \$8.2M on November 5, 1996. The intent of the bond was to address thirteen projects, which were considered Master Plan priorities at the time. The time frame for completion was estimated at eight years, culminating in FY 2004.

To date, six recreation bond projects are complete: Bow and Arrow, Bushmaster, Continental, MEMS Field, Killip Field, and Sechrist Field. Two recreation bond projects are scheduled for construction spring/summer 2002: McMillan Mesa and Foxglenn. Three recreation bond projects will be designed summer/fall 2002 with construction in either 2002 or 2003: Christensen Field, Thomas Field, and Thorpe Phase I. One project is for the design of a future Aquatics Center. This project, if pursued, could occur summer-winter 2003. The Parks and Recreation Commission and staff recommend that the remaining project, Linda Vista, be cancelled due to site constraints.

In addition to the bond funded projects, the City has also been able to address five other significant projects during the same timeframe: FHS/MEMS Pool Renovations, JLAC Ice Rink Locker Room/Lobby Renovations, Continental Land Acquisition, Lake Mary Land Acquisition, and Cheshire Land Acquisition/Expansion. Funds for these additional projects are derived from BBB tax revenues, earned interest, a general fund tax shift, and grants.

The City Council and staff are advancing the purchase of the land to expand Cheshire Park, estimated to cost \$800,000 exceeding the \$200,000 originally scheduled for a lease payment. To fund the additional \$600,000 the following reductions were made: Reduce the

Aquatic Design budget by \$200,000, reduce the Continental Land Acquisition by \$200,000 (net), and reducing the Foxglenn Park construction budget by \$200,000 (to reflect the awarded construction bid).

In addition to capital expansion, the Recreation BBB fund is also used for maintenance of improved parks and FUTS trails, construction management, FUTS construction, and other earmarked expenses. In order to provide for these ongoing expenses, there is a limit to the number of construction and acquisition projects that can be realized, unless other sources of operating funds are identified.

2003 Issues

Capital Improvement Division Cost Allocation

In the FY 2002 annual budget, the City Council approved the creation of the Capital Improvements Division (CID). One organizational goal of the Capital Improvements Division is to be accountable for the delivery of the Capital Improvement Program in a cost effective, efficient, and timely manner. Another organizational goal is to reduce operating impacts to the City's General Fund, when ever possible.

Traditionally all consultant services, construction inspection, and materials testing project delivery costs are directly allocated to a benefited capital Similarly, a portion of project administration cost (staff salaries, vacation and sick leave) has been directly allocated to a project. This left a remaining portion of project administration to be allocated as an indirect cost to the various operating funds for which the CID is delivering budgeted projects. It hasn't been allocated as a project expense. These indirect costs include staff salaries paid for time in training, non-project meetings, capital budget preparation, etc. and other resources used by the CID as commodities or contractual expenses.

The methodology adopted for FY2003 allocates all the CID operating expenses to budgeted capital projects for the fiscal year. This allows

for all indirect expense to be treated in the same manner as direct expense. Any decision to fund a capital project can be made knowing the total project cost.

This approach allows the CID to deliver capital improvement program projects without uncertain fiscal impact to any operating funds.

Environmental Services

The Environmental Services Division, formerly the Solid Waste Division, has significantly changed its scope and definition over the last three years. Previously, the enterprise-funded division focused on providing a variety of for-fee services involving refuse collection and disposal.

In 1995, the Solid Waste Division, working with Public Works Administration's Conservation Coordinator, developed a comprehensive full-scale recycling program, which was implemented in 1998. At that same time, the Conservation Coordinator was responsible for several other programs directly related to the Solid Waste Division's activities. These included Recycling Education, Litter Code Enforcement, Abandoned Vehicle, Household Hazardous Waste, and the Clean and Green programs.

Public Works Administration was responsible for the newly formed Environmental Management Program, which dealt with all environmental issues for the City. As with the Conservation programs, it was quickly realized that many of the environmental issues had a direct relation or impact on the Solid Waste Division. The common thread between all of these programs was protecting the environment. In fiscal year 1999, the Environmental Services Division was formed to consolidate these programs into one division in an effort to increase productivity and efficiency in the coordination of environmental programs.

The new division was funded through service fees from the enterprise fund programs, BBB funds for the Clean and Green programs, and general fund contributions for the Code Enforcement, Abandoned Vehicle and Environmental Management programs. Over the past two years, funding for these programs from the general fund have been reduced due to budget constraints and competing needs in general funded programs. The enterprise fund has been making up the budget shortfall,

however this is not a sustainable effort. Some type of recovery effort must be initiated.

Several alternatives were explored to fund the Environmental Management programs including increasing the solid waste fees, restoring the General Fund transfer, and establishing a separate Environmental Services fee.

As these programs are directly related to the health, welfare and quality of life for all citizens of Flagstaff, the funding for these programs should be shared by all that benefit. To this end, the City will pursue a separate and distinct Environmental Services fee.

Special Census

The U.S. Census Bureau conducts special censuses at the request of a governmental unit. e.g., state, county, city or other political subdivision within a state. The basic objective of a special census is to obtain updated population and housing counts. The standard information provided by the Special Census Program is age. sex, relationship, and race. Also provided is the occupancy or vacancy status, type of vacancy, and tenure for housing units. For a special census, the City may add questions to gather data on housing, transportation, or land use planning; however, questions must be in accordance with subjects covered by the census. Added questions increase the special census fee.

Slight shifts in our population standing in comparison to the rest of the State, translate into huge dollars to our City. Based upon the FY 2002 revenue distributions for State Sales Tax and State Income Tax. If our City gains or loses 1/10th of a population percent as compared to the rest of the State, we stand to gain or lose more than \$700,000.

A significant amount of City staff time is necessary to complete a special census. Tasks include:

- Advertising for and hiring the census takers.
- Scheduling training sessions for census takers.
- Arranging and paying for meeting places for training.
- Obtaining, leasing, and furnishing the facility (electronics and office equipment) for the census operation.
- Updating census maps.

Oversight and coordination

The City assumes full responsibility for the cost of the special census. While the cost to conduct the Special Census in 1995 was \$190,000, the cost is anticipated to be approximately \$300,000 for a census in 2005. The increase is due to inflation and the community growth.

The Special Census Program is expected to be ready for field implementation in 2003. A Special Census can be conducted any year between 2003 and 2008. The Census Bureau believes there will be a large number of special censuses requested during this time frame. The Census Bureau strongly advises that a government request placement on the waiting list in the Fall of 2002 for a 2005 Special Census. The Census Bureau will handle requests on a first come first serve basis.

The City will pursue a special census in FY2005 in its efforts to maintain a balance with the rest of the State. This timing in intended to maximize the City's return on its investment to complete this task.

Information Systems – Lease vs. Purchase

Determining whether leasing or buying is better economically requires knowing the purchase cost of the asset, the rental costs, the interest rate on a loan if funds are borrowed to buy the asset, and the expected value of the asset at the end of the lease term.

Businesses lease for several reasons.

- To conserve cash.
- To not be locked into technology.
- Facilitate standardization efforts.
- Help smooth budget spikes.
- Better assets than you could afford to buy.
- Tax advantages.
- Book accounting advantages.
- Incentives.

Leasing is not the best choice for everyone.

- The interest rate used for the lease is higher than you would pay on a loan.
- You may be able to use an asset considerably longer if it was purchased, thus saving funds in later years

- Inability to adhere to the contract length, terms, and conditions
- Lack of a strong architectural plan for technology
- Need for flexibility

During fiscal year 1997-98 the City issued an RFP that provided for both a lease and lease purchase option. The City had a need to upgrade its existing inventory of personal computers, network servers, mid-range computer, and network switching equipment, however sufficient funding was not available internally.

An RFP was created that provided both a lease and lease purchase option. The lease purchase option was chosen over the lease option for the PC's and servers for several reasons, 1) commitment to upgrade in three years to new equipment by the same vendor 2) the net present value of the lease option was more costly.

Leasing was an attractive alternative for all computer-related components until 2000 / 2001, at which time a downward spiral in cost of computer hardware occurred. Cost of PC's and servers have seen cost decreases of 40 to 60%. The concept of thin client is now an acceptable alternative to thick client. Thin server technologies that utilize either network area storage (NAS) or storage area network (SAN) are the current trend.

Given that the current technological environment is ever changing, and the magnitude of need in the current year is manageable through available resources, outright purchasing will be pursued. The City will continue to analyze all purchases relative to leasing dependent on market conditions.

Fleet Services – Use of Biodiesel

Biodiesel is a diesel fuel substitute produced from renewable sources such as vegetable oils, animal fats, and recycled cooking oils. It can be used in unmodified diesel engines. It is safe, biodegradable, and reduces air pollutants such as soot, particulates, carbon monoxide, hydrocarbons and other air toxins. Performance, storage requirement, and maintenance are similar for biodiesel blend fuels and petroleum diesel (petrodiesel).

Biodiesel is one of several alternative fuels, such as ethanol, compressed natural gas, propane, methanol, etc., that are being developed to reduce our reliance on non-renewable petroleum fuels.

Biodiesel is usually blended with petroleum diesel for use in diesel engines. A blend called B20, for example, refers to 20% biodiesel, 80% petroleum diesel. An EPA study found that biodiesel; B20 reduced total hydrocarbons by up to 30%, carbon monoxide up to 20%, and total particulate matter up to 15%. Typically, emissions of nitrogen oxides (NOx) are either slightly reduced or slightly increased depending on the duty cycle of the engine and testing methods used. Increases in NOx can be effectively eliminated with the use of normal mechanical remediation techniques (e.g. catalysts or timing changes). Research also documents the fact that the ozone forming potential of the hydrocarbon emissions of pure biodiesel is nearly 50% less than that of petroleum fuel.

Biodiesel B20 does not have an adverse affect on storage tanks, fuel filters, fuel pumps or nozzle filters at the pumps. The current price difference of 15ϕ and 20ϕ per gallon is anticipated to be reduced in the future as more commercial sites choose the blend for over the road truck stops and as government entities join consortiums.

While the City did not budget for biodiesel in FY2003, the City will continue to monitor biodiesel until it is more cost effective to use. The City will also explore what other incentives may be available to assist in recouping the additional cost.

Fleet Services – Labor Rates and Environmental Fees

Shop labor rates have been at \$38.00 per hour since 1994. This leaves year-end fund allocations of additional costs ranging from \$100,000 to \$400,000 that should have been distributed to the pieces of equipment that actually incurred the costs. This method distorts the actual equipment costs per hour/mile and does not capture accurate cost data. Accurate cost data is critical to the Fleet Committee to determine yearly replacement evaluations as the optimum time to replace equipment is achieved when cost of maintenance operations equal the purchase price of the vehicle. Several options were evaluated and the City chose to:

Change the shop rate to \$42.00 per hour, and add:

- a. Parts markup percentage
- b. Fuel markup per gallon

- c. Charge an environmental waste disposal fee
- d. Review and adjust rates after 2-3 year period.

It is believed to be the most equitable method of distributing actual shop costs to the equipment serviced.

Also, as with any fleet service facility, there are numerous wastes generated during the course of fleet operation and maintenance. The acceptable practice throughout the industry involves good environmental management of pollution prevention, encouraging recycling, and meeting all federal, state and local laws.

Environmental fees are the costs associated with collecting and properly disposing of waste products generated in the repairs and maintenance of vehicles and equipment. Some examples of environmental fees are:

- Disposal of brake/clutch pads
- Used battery storage/recycling
- Recycling of used antifreeze
- > Recycling of used motor oil
- Used oil filter disposal
- Capture and reuse of air conditioner refrigerant
- Used tire disposal
- Compliance with federal/state storm water/oil separator regulations
- Cleaning fees for uniforms and shop rags
- Oil absorbent disposal

All repair facilities capture the costs associated with proper disposal or recycling by passing them on to the customer under "miscellaneous shop fees" or "hazardous fees." Currently all environmental fees are absorbed by Fleet Services. Industry procedure is to track all associate costs and allocate a portion to each work order that is generated. The fee is calculated by totaling all the costs generated in the various accounts and dividing by the estimated number of work orders.

Fleet Services will initiate a \$5.00 per repair order Environmental fee. Fleet Services can then recover the costs associated with waste disposal.

Capital Financing/Bond Program

The City of Flagstaff is developing a long-range plan that balances competing capital needs and how to finance them. Capital improvements range from maintaining infrastructure, to the relocation of fire stations, to meeting growth in the community, to meeting community expectation, i.e. Open Space.

The public process used in Transportation 2000 will be used as the model for this current endeavor. While it can be a lengthy process, community education and participation is the key to success for this venture. This planning process will need to take approximately 4-6 months which will include a clearer definition on the scope and project costs.

To develop the plan, the following key elements will be addressed in the planning process.

- The community will participate in the development of a priority list that determines the present and future needs of the community.
- Adequate cost structures will be developed that are appropriately inflated to cover the cost of projects that extend over multiple years.
- Financial resources will be evaluated to determine the most appropriate vehicle to use for payment.
- The community must express their willingness to pay for these new improvements.
- The Council will determine new or existing reoccurring revenues to support the maintenance of new facilities.

The City has developed a list of current needs that the community may or may not endorse. The current list includes the following, however it may not be all-inclusive.

>	Water and Sewer	\$ 22.0M
>	Four fire stations relocations	16.0M
>	Parks & Recreation	35.7M
>	McMillan Mesa Open Space	20.0M
>	Urban Open Space	15.0M
>	New City Shop facility	20.0M
>	Court and City facilities	6.0M
>	Other large capital	2.0M
>	USGS Lease Buildings	10.0M
Tot	tal	\$164.7M

The financial resources available to pay for a large capital program include:

- ❖ Pay as you go financing Using current revenue and/or fund balance resources
- Bonding Debt financing
- ❖ Taxation Increase sales or BBB taxes
- Grants Public or private dollars generally available for a specific application
- Donations May be either general or specific

 Partnerships – Merging similar needs within mutual funding

Issuing bonds and/or increasing taxes are the primary methods of generating additional funds for capital expansion. There are several bond types the City can pursue. The most typical for most of these improvements are general obligation bonds.

General Obligation Bonds - There are two different use categories. G.O. Bonds can be issued for up to 20% of the secondary assessed valuation for projects involving water, sewer, artificial lighting, parks, open space, and recreational facilities. Current capacity is estimated to be \$57,307,859 and will grow to approximately \$75 million by FY 2006. For all other general-purpose improvements, the City may issue up to 6% of its secondary assessed value. Current capacity is estimated to be \$20,181,824. and is estimated to \$27,747,650 by FY 2006.

\$10,900,000 of additional debt can be supported by a tax rate increase of \$0.2175, a 22% increase. A business with a \$1,000,000 in value would experience a \$543.75 annual increase in property taxes. A residential home valued at \$200,000 would see an annual increase of \$43.50.

The existing tax rate is 0.9801. The City of Flagstaff existing debt is paid off in intervals over the next 6 years. The existing secondary property tax rate supports an additional \$16,500,000 debt in FY2006. In 2008, an additional \$9,500,000 is supported, and in 2010 \$6,350,000 is supported.

BBB taxes could also be increased to support additional debt. Current Bed, Board, and Booze tax is at 2%. If only the bed portion were increased by 1%, an additional \$1 million in tax revenue would be generated which supports an additional \$10.9 million in debt.

State statute sets the dates when a municipality can hold a special or general election. These months are September, November, March, and May. A bond election carries further requirements with regards to publicity pamphlets and soliciting pro and con arguments. To adequately meet the public education and statutory requirements, the Council has established a May 2003 election date.

